

DUKE POWER

ANALYSIS OF 1998 EBIT AND EARNINGS AND MARCH 1999 EARNINGS

(millions of dollars)

	MID DECEMBER ESTIMATE	ACTUAL AFTER INTERMEDIATE LEDGER (incl. Asbestos)	12 MONTHS ENDED MARCH 1999 ESTIMATE
Duke Power EBIT for 1998	\$ 1,388	\$ 1,391	
Electric transmission EBIT for 1998	\$ 158	\$ 154	
Total electric EBIT for 1998	<u>\$ 1,526</u>	<u>\$ 1,545</u>	
Above EBIT excluded from regulatory earnings	\$ (45)	\$ (126)	
Pre-tax earnings for electric cost of service	\$ 1,481	\$ 1,419	\$ 1,445
Less: income taxes	\$ (493)	\$ (487)	\$ (492)
Less: interest expense	\$ (240)	\$ (282)	\$ (281)
Less: preferred dividends	\$ (27)	\$ (22)	\$ (20)
Income available for common equity	<u>\$ 721</u>	<u>\$ 628</u>	<u>\$ 652</u>
Less: common equity income from wholesale operations	\$ (33)	\$ (33)	\$ (30)
Common equity income for retail operations	<u>\$ 688</u>	<u>\$ 595</u>	<u>\$ 622</u>
Common equity invested for retail operations	<u>\$ 4,034</u>	<u>\$ 4,034</u>	<u>\$ 4,107</u>
Rate of return on common equity for retail operations	17.06%	14.75%	15.14%
Pre-tax earnings over the allowed common equity rate of return	<u>\$ 303</u>	<u>\$ 149</u>	<u>\$ 178</u>

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(millions of dollars)

	MID DECEMBER ESTIMATE	ACTUAL AFTER INTERMEDIATE LEDGER (incl. Asbestos)	12 MONTHS ENDED MARCH 1999 ESTIMATE
Excess retail pre-tax earnings	<u>\$ 303</u>	<u>\$ 149</u>	<u>\$ 178</u>
Retail pre-tax earnings assigned to non retail operations:			
Market based non fuel Intersystem revenues included in EBIT	\$ (72)	\$ (78)	\$ (78)
Market based non fuel transmission revenues included in EBIT	\$ (21)	\$ (22)	\$ (22)
Increase the common equity ratio to 60% from 54%	\$ (72)	\$	\$
Eliminate Nantahala non fuel revenues	\$ (22)	\$	
Eliminate Schedule J non fuel revenues	\$ (46)	\$ (46)	\$
Total of adjustments	<u>\$ (233)</u>	<u>\$ (146)</u>	<u>\$ (100)</u>
Additional expense items needed to avoid reporting over-earnings to regulators	<u>\$ (70)</u>	<u>\$ (3)</u>	<u>\$ (78)</u>
Total adjustments	<u>\$ (303)</u>	<u>\$ (149)</u>	<u>\$ (178)</u>

RECOMMENDATION:

Increase non-cash expenses for:

Eliminating Deferred DSM, a current regulatory asset	\$ 75
Increasing expenses to accrue for Clean Air additional expenditures	???

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(millions of dollars)

MID DECEMBER
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AFTER
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ESTIMATEDUKE POWER
REPORTING REGULATORY EARNINGS
ADDITIONAL EXPENSE PROVISIONS FOR CALENDAR 1998

- 1 Profits from intersystem sales are assigned to wholesale operations
- 2 Executive deferred compensation reclassified as a regulatory expense
- 3 Nuclear insurance refunds reserved rather than classified as a reduction in regulatory expenses
- 4 Interest paid on income tax settlements reclassified as a regulatory expense
- 5 Lease expenses associated with space occupied by merchandising but also used for electric customer collections were allocated and such that a portion was reclassified as a regulatory expense
- 6 Analysis of electric income tax positions resulted in an additional income tax provision for future settlements
- 7 Negative unbilled revenues included as a reduction in regulatory earnings
- 8 Revenues from CP&L for Schedule J assigned to wholesale operations
- 9 Demand allocations adjusted to reflect NC retail's increase in number of customers since the end of 1997
- 10 Increased retail's allocation of general office expenses to reflect an average for several years

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